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OPPORTUNITY DRIVES GROWTH

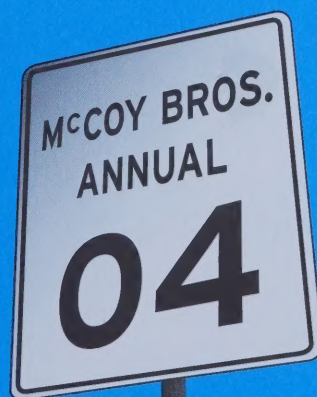
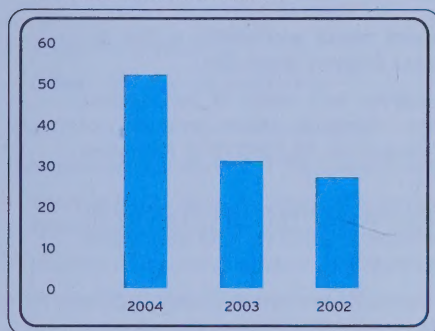


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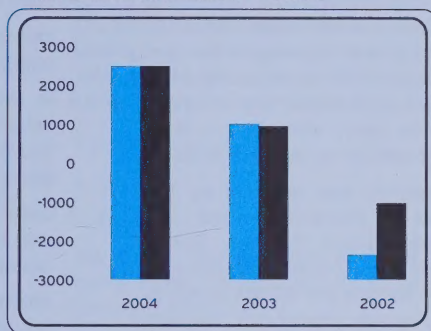
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FINANCIAL HIGHLIGHTS

REVENUE in millions of dollars



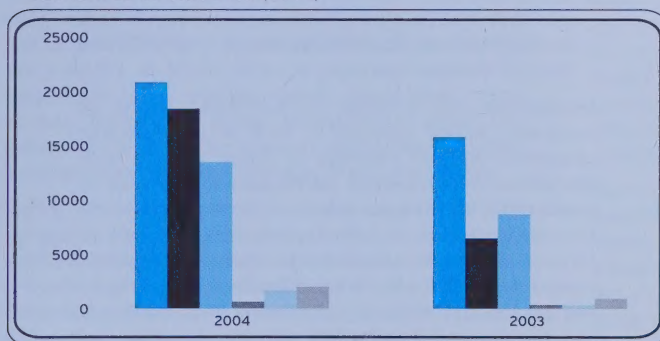
NET EARNINGS in millions of dollars



Net Earnings

Adjusted net earnings (excluding discontinued operations)

SEGMENTED INFORMATION (000's)



Revenue - Truck & Trailer Products & Services

Revenue - Trailer Manufacturing

Revenue - Oilfield Products Manufacturing

Earnings - Truck & Trailer Products & Services

Earnings - Trailer Manufacturing

Earnings - Oilfield Products Manufacturing

Operations (thousands)

	2004	2003	2002
Revenue	\$ 52,379	\$ 30,786	\$ 27,102
Net earnings (loss)	2,343	1,004	(2,364)
Operating cash flow	3,473	800	2,283

Per Common Share(\$)

	2004	2003	2002
Net earnings (loss)			
basic	0.13	0.06	(0.17)
diluted	0.13	0.05	(0.17)
Common shares outstanding	17,649,100	17,533,807	17,533,807

Financial (thousands)

	2004	2003	2002
Working capital	6,822	4,914	1,321
Bank indebtedness	4,281	280	3,174
Long-term debt	2,200	727	2,255
Due to related parties	4,144	1,148	2,251
Shareholders' equity	11,898	8,736	7,732

LETTER TO SHAREHOLDERS

Management's business growth strategy was a key driver in the Company's success in 2004. Operations were improved, an important acquisition was completed and geographic growth continued. A strong oil and gas industry formed the backdrop for this success story. The improvement of our financial position and business processes over the last two years allowed us to take advantage of the strong growth in the resource sector.

Management's growth strategy was reflected by the acquisition in September of Peerless Limited. The combination of Penticton based Peerless trailer manufacturing and McCoy's Scona trailer manufacturing business has allowed us to become the market leader in the manufacture of heavy-duty trailers in Western Canada. Peerless met our three part acquisition criteria: (a) historical profitability, (b) strong management and (c) offering a "good fit" with existing McCoy operations. The positive financial impact of the acquisition was felt in the full fourth quarter.

Next, The Real McCoy Service Centres expanded their business portfolio with the opening of a new, state-of-the-art facility in Fort St John, British Columbia. This region has been an expansion target for McCoy's long standing truck and trailer service business for some time. The region has seen several years of growth in the oil and gas and forestry sectors and many of our Alberta-based customers have expanded their operations to Fort St John. To support our customers and the market, the Company made the strategic decision to enter this region. This was a key step in our overall growth strategy to become the leaders in the specialty heavy-duty truck and trailer business.

On the operations side, the Company was successful in completing its goal of significantly improving the safety of the workplace for our employees. Farr Canada was the third division to receive its "Certificate of Recognition" from Alberta Human Resources. The Real McCoy Service Centres achieved certification in 2002 and Scona Trailer Manufacturing obtained its certification in 2003. Annual audits are conducted to ensure we continue to both maintain our high standards and continually improve them. The success of this program could not have been achieved without the exceptional efforts of our employees.

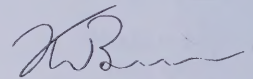
Financially, the Company has several highlights we wish to point out:

- 1 McCoy experienced record profitability in the 3rd quarter prior to the Peerless acquisition.
- 2 In the fourth quarter, as a result of the Peerless acquisition, the Company had revenues of \$23,586,949 compared to \$8,239,778 in the fourth quarter of 2003.
- 3 Basic earnings per share improved from \$0.05 for the year ended December 31, 2003 to \$0.13 for the year ended December 31, 2004.
- 4 EBIT (earnings before income tax) of \$3,860,268 for the year ended December 31, 2004 was the highest in the Company's history.
- 5 Cash flow from operations before net change in non-cash working capital items per share for the year ended December 31, 2004 increased to \$0.25 from \$0.09 in the previous year.

Management will continue its concerted efforts at improving market position in each of our business segments. We will continue to move forward with operational improvements, particularly in the area of productivity. We will also continue to pursue growth both through expansion of existing businesses as well as through strategic acquisitions. Market indications suggest that 2005 will see a continuation of a strong oil and gas industry fueled by uncertainty in global supply and the demand from rapidly growing countries like China. The forestry and construction industries in Western Canada also appear to be healthy and the Company will benefit from the strength of these markets as well. We will be ready to take advantage of these exciting new opportunities as they unfold.



Jim Rakievich
President and
Chief Executive Officer



Kerry Brown
Chairman and Chief
Financial Officer

REVIEW OF OPERATIONS

The Company has three main segments:

Truck & Trailer Products & Services

Trailer Manufacturing

Oilfield Products Manufacturing

Truck & Trailer Products & Services

This segment is comprised of the following operations:

- The Real McCoy Services Centres (Edmonton Westend, Edmonton Southside, Red Deer, Fort St. John)
- Peerless (Edmonton, Grande Prairie, Prince George)
- Prairie Truck Ltd. - 50% interest (Grande Prairie)

In April 2004, the Company's wholly-owned service operations adopted the name "The Real McCoy Service Centres, a Division of McCoy Bros. Inc.". There are two Real McCoy Service Centres in Edmonton and one in Red Deer, and the Company continues to lead the industry in those cities. Equipment installation, suspension work, welding, safety inspections, brake service, alignments, frame straightening, axles and hydraulics are among the products and services provided for heavy-duty and some light-duty trucks and trailers.

During 2004, The Real McCoy Service Centres set their geographical expansion strategy in motion by opening a 20,000 square foot combined truck and trailer service and retail parts distribution facility in Fort St. John, British Columbia. The high level of industrial activity in the area, particularly related to the oil and gas and forestry sectors, presented a fitting opportunity for a new sales and service location. The facility was built to McCoy's specifications and a fifteen-year lease was negotiated. In cooperation with UAP Inc.'s Heavy Vehicle Parts Division, the new service centre is also a "Traction Associate" store, thus marking the Company's re-entry to heavy-duty parts distribution. The new location opened as scheduled in October.

Retail heavy-duty parts distribution and heavy-duty trailer repair is a significant portion of Peerless' business. This activity is carried on at Peerless locations in Prince George, British Columbia and Edmonton and Grande Prairie in Alberta.

Prairie Truck Ltd. is an International Truck dealership offering new International Trucks, used trucks, a large truck and trailer service facility and a heavy-duty truck and trailer parts department. McCoy has been successfully involved with this enterprise since acquiring a 50% equity interest in 1997.

Sales in this segment grew by 32%, from \$15,714,746 in 2003 to \$20,683,242 in 2004. This increase is due largely to the addition of the related portions of Peerless' operations to this segment.

The industries in which this segment's customers operate, specifically, oil and gas, forestry, and construction, are forecasted to remain strong in Western Canada in the coming year, and we expect the new location in Fort St. John to gain momentum in the region. The outlook for 2005 is therefore positive overall.

Trailer Manufacturing

- Scona
- Peerless

The trailer manufacturing segment is comprised of Scona Trailer Manufacturing in Edmonton and Peerless Limited in Penticton.

Scona produces heavy-duty trailers for both on-road and off-road use. These include lowboys, flat decks, step decks, oil field floats and specialty trailers. The trailers are manufactured at its 25,000 square foot plant in Edmonton. Scona is recognized as a producer of high quality, long lasting trailers and has served the Western Canadian market for more than fifty years. In accordance with its growth strategy Scona has begun to establish a customer base in the Western United States.

Peerless is a market leader of specialized, quality manufactured logging trailers for the Western Canadian market. Peerless also manufactures heavy-duty trailers, including low bed trailers and custom chassis to serve the oil and gas, mining and construction industries. Originally established in Portland, Oregon in 1944, Peerless relocated its main manufacturing plant to the City of Penticton in the Okanagan Valley in 1973.

The acquisition of Peerless at the end of the third quarter resulted in a combined total of approximately 65,000 square feet of trailer manufacturing capacity, and rendered McCoy Bros. the largest manufacturer of heavy-duty trailers in Western Canada. Synergies are becoming evident as the two manufacturers merge engineering expertise and increase efficiencies in materials and supply management.

Both trailer manufacturers showed strong performance in 2004 as demand for their products with oil and gas applications kept pace with the growth of the oil and gas industry in Western Canada. The addition of Peerless trailer sales in the fourth quarter contributed to sales for the segment of \$18,284,112 compared to \$6,439,256 in 2003.

Scona, in particular, has made major strides recently increasing throughput in the plant. The improved manufacturing processes combined with cost reduction measures implemented during the prior two years positioned Scona to capitalize on a strong market. The expectation for both trailer manufacturers for 2005 is that they will continue to benefit from lively activity in the sectors they serve.

Oilfield Products Manufacturing

- Farr Canada
- The Real McCoy Service Centres (Red Deer)

Farr Canada's manufacturing plant is located in Edmonton, Alberta. During 2004, The Real McCoy Service Centres, Red Deer location, geared up to manufacture oilfield products and leased additional space to accommodate the welding and fabrication activities.

Farr Canada's primary product line is hydraulic power tongs used in oil and gas well workover and drilling application on both land and off-shore rigs. Farr also produces a variety of complementary tong products and a computerized torque control system known as Wincatt. During 2004, Farr completed the development of new software that enables the Wincatt program to be used on a laptop platform, a convenience that is proving popular with system users.

The pipe-handling product line manufactured in Red Deer was recently added to this segment. This type of equipment includes pick up and lay down machines as well as truck mounted tong decks and hydraulic power units. The manufacture of pipe handling equipment is aimed at a niche market and the Company competes with three other manufacturers globally. These products have been well received and sales have been made to end-users in Canada, the United States and the Middle East.

Activity in this segment during the past year mirrored both the local and international oil and gas industry whose customers are divided between Canada and foreign countries. The Middle East was the most notable region for growth in foreign sales in 2004.

World demand for this segment's products produced record sales of \$13,411,298 in 2004 compared to \$8,632,130 in 2003. The Company continues to invest not only in capital equipment but in improved manufacturing techniques in order to once again capitalize on customer demand. The outlook for 2005 is positive as there are no indications of a slowdown in the oil and gas sector.

Health, Safety and Environment

Our Company is committed to providing Health, Safety and Environmental programs that protect our workers, the public, the environment and equipment.

We are proud participants of Alberta's Certificate of Recognition ("COR") program. Employers who develop health and safety programs that meet specific standards may be awarded a COR upon successful completion of an audit. The award is made by the Certifying Partners, a group of organizations responsible for assessing the quality of health and safety programs in Alberta. We are pleased to note that in December 2004, Farr Canada achieved its initial COR with a perfect score!

Earlier in the year, The Real McCoy Service Centres in Edmonton and Red Deer completed their third year COR audit, and Scona Trailer Manufacturing successfully completed its second year COR audit.

Although we believe our business activities present a relatively low risk to the environment, we have been conducting internal environmental audits at all of our wholly-owned locations since 2000. The quarterly audit results are reported to the Board of Directors as are our health and safety statistics.

We look forward to begin rolling out the COR program and environmental audits to our other locations later this year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements and associated notes presented on page 14 of the Company's Annual Report for the fiscal year ended December 31, 2004. All comparative figures and percentages in this discussion and analysis are between the year ended December 31, 2004 and the year ended December 31, 2003, and are after adjustments for discontinued operations, unless stated otherwise. This Management's Discussion and Analysis as of March 8, 2005 provides information on the activities of McCoy Bros. Inc. on a consolidated basis and all amounts are expressed in Canadian dollars unless otherwise stated.

Vision, Core Business and Strategy

Our vision is to become the market leader in each of the segments in which we operate. We will endeavour to achieve this through organic growth and strategic acquisition. We have altered our segmentation this year to accommodate the acquisition of Peerless Limited in the fourth quarter of 2004. The segments are as follows: Truck & Trailer Products & Services, Trailer Manufacturing and Oilfield Products Manufacturing.

The Truck & Trailer Products & Services segment is the longest standing business segment of McCoy's. This segment is involved primarily in providing heavy-duty truck and trailer maintenance and repairs, which also includes the retail sale of truck and trailer parts. It consists of four "Real McCoy Service Centres", two in Edmonton and one in each of Red Deer, Alberta and Fort St. John, British Columbia. The Peerless component of this segment includes retail parts and service operations in Prince George, British Columbia and Edmonton, Alberta as well as a retail parts outlet in Grande Prairie, Alberta. Prairie Truck is an International truck dealership in the business of truck sales, parts and

service located in Grande Prairie, Alberta. Growth opportunities will be undertaken through geographic expansion by acquisition or start up of new facilities in our specialized service industry. There has been little or no consolidation in Canada with respect to McCoy's sector of the market.

The Trailer Manufacturing segment consists of Scona Manufacturing and the trailer manufacturing portion of Peerless Limited. The strategy for this segment is to continue to pursue manufacturing efficiencies for our processes, eliminate waste, reduce inventory, and increase throughput. The focus in 2005 will also be to develop efficiencies between the two trailer manufacturers and align the internal controls.

The Oilfield Products Manufacturing segment consists of Farr Canada and the manufacturing portion of the Red Deer "Real McCoy Service Centre". 2005 will see an increase in throughput by continuing to implement manufacturing controls. This segment will also strive to increase presence in new geographical markets where we have not made an impact in the past. We will be specifically pursuing opportunities in the Russian market place. The Company views this as a long-term initiative looking at future oil and gas growth opportunities. The Company will also pursue growth through strategic acquisition where the opportunity presents itself.

McCoy's strong management team along with our proven systems will be our platform for continued growth. The senior management team and management systems have the capacity to take on new ventures without significant growth in expenditures. The Company will build on the brand name recognition in our core businesses and on proven product reliability over the long term.

Financial Highlights

12 Months Ended December 31

	2004	2003	2002
Total revenue	\$ 52,378,652	\$ 30,786,132	\$ 27,102,018
Earnings (loss) before discontinued operations	2,343,374	940,354	(1,033,350)
Net earnings (loss) for the year	2,343,374	1,003,772	(2,364,072)
Basic earnings (loss) per share before discontinued operations	0.13	0.05	(0.07)
Basic earnings (loss) per share	0.13	0.06	(0.17)
Diluted earnings (loss) per share before discontinued operations	0.13	0.05	(0.07)
Diluted earnings (loss) per share	0.13	0.05	(0.17)
Total Assets	35,843,030	16,304,972	19,720,507
Total Liabilities	23,944,755	7,569,150	11,988,457

McCoy's 2004 financial results reflect the continued success of the existing operations, as well as the purchase of Peerless Limited on September 24, 2004 and the opening of a "Real McCoy Service Centre" in Fort St. John, British Columbia, on October 18, 2004. Revenues increased by 70% which was a reflection of improved operations in a strong oil and gas market as well as the

addition of Peerless and Fort St. John which impacted the 4th quarter. The increase in both assets and liabilities are also a reflection of these two events.

A cash dividend in the amount of \$0.01 per share was declared and paid in 2004 for all common shareholders.

Results of Operations

Sales

Sales by Segment	Truck & Trailer Products & Services	Trailer Manufacturing	Oilfield Products Manufacturing	Intersegment Eliminations	Total
2004					
Total external sales	\$ 20,683,242	\$ 18,284,112	\$ 13,411,298	\$ -	\$ 52,378,652
Total inter-segment sales	34,022	-	6,869	(40,891)	-
Total sales	20,717,264	18,284,112	13,418,167	(40,891)	52,378,652
2003					
Total external sales	\$ 15,714,746	\$ 6,439,256	\$ 8,632,130	\$ -	\$ 30,786,132
Total inter-segment sales	9,605	-	32,528	(42,133)	-
Total sales	15,724,351	6,439,256	8,664,658	(42,133)	30,786,132
Percentage Change	32%	184%	55%		

All three segments of the Company saw an increase in sales. Truck & Trailer Products & Services enjoyed increased revenues for two reasons. Firstly, the Peerless Limited acquisition increased revenues by approximately \$3 million. The balance of the increase is related to sales in existing business. The Trailer Manufacturing segment saw a much greater increase in sales again for two reasons. The Peerless acquisition contributed approximately \$8.6 million in revenues in the fourth quarter. The balance relates to the Company's efforts to increase throughput at Scona Manufacturing. The demand for trailers has necessitated the need to improve our processes so that more units can be manufactured in less time. Our oil and gas customers continue to purchase capital equipment as the industry flourishes. The Oilfield Products Manufacturing revenues

increased approximately \$4 million over the prior year due to the continued efforts in this segment to implement "lean manufacturing". We expect to see further growth in the Truck & Trailer Products and Services segment due mostly to reporting a full year of Peerless Limited related business in 2005. A full year of Fort St. John results will also contribute to an increase in revenues for 2005 as the branch was open for only two months in 2004. We expect to see growth in the Trailer Manufacturing revenues as order books continue to be strong and are expected to stay strong throughout 2005. A continued increase in Oilfield Products Manufacturing segment revenues are expected as we move toward the full implementation of lean manufacturing.

Gross Profit

	2004	2003
Gross Profit	\$ 17,228,769	\$ 10,217,605
% of Total Sales	32.89%	33.19%

Gross profit increased by 69% or \$7,011,164. This relates directly to the increase in revenues. Consolidated gross margin as a percentage of sales decreased by 0.30% compared to 2003.

Salaries & Commissions

Salaries increased \$2,291,422 or 50% to \$6,901,072 compared to \$4,609,650 in 2003. Half of this increase relates to the purchase of Peerless Limited and the opening of the Real McCoy Service Centre in Fort St. John. The balance of the increase relates to the need to increase staffing as sales volumes increased, as well as the increase in commissions due to the higher sales in the balance of the operations. This trend will continue into 2005 as a full year of results for Peerless and Fort St. John are generated.

Operations

Operations expenses were \$4,188,519 versus \$2,692,227 in 2003. This represents an increase of \$1,496,292 or 56%. Approximately 45% of the increase relates to the Peerless acquisition and the Fort St. John start up. The balance of the increase is directly related to the payment of rent on the 2003 sale leaseback for twelve months in 2004 compared to 7 months in 2003. Additional equipment repairs were also required as production increased.

Amortization

Amortization expense of \$760,456 represents a \$125,919 or 20% increase from amortization expense of \$634,537 in 2003. Half of the increase relates to the acquisition of Peerless Limited. The balance of the increase reflects the Company's decision to invest in equipment in order to increase manufacturing throughput and capture higher demand for the Company's products.

Corporate Services

Corporate service expenditures decreased \$2,955 or 0.7% to \$433,143 compared to \$436,098 in 2003.

Selling

Selling expenses increased by \$210,709 or 54% to \$600,203 from 2003's \$389,494. In terms of a percentage of sales, selling expenses saw no change. The Company was present at both the Houston oil show and the Global Petroleum Show and a decision was made to increase the sales force for the Real McCoy Service Centres. The Peerless acquisition represents roughly one quarter of the increase.

Interest on Debt

Interest on debt of \$266,583 represents a \$118,908 or 31% decrease from interest expense of \$385,491 in 2003. Long-term debt and bank indebtedness existed for approximately five months in 2003 compared to three months in 2004. A term loan with a related party partially offsets the decrease as this was also held for three months in 2004. This trend will continue into 2005 as a full year of interest is charged on various debt instruments.

Stock Based Compensation

Stock based compensation of \$205,732 represents a 100% increase over the prior year. The Company adopted the fair value method of accounting for stock based compensation and the result is a charge to stock based compensation expense. This will continue in the coming year.

Loss on Foreign Exchange

Loss on foreign exchange of \$12,793 represents a \$39,161 change from the loss on foreign exchange of \$51,954 in 2003. We operate internationally with approximately 20% of our business conducted in US dollars. Accordingly, our results are affected by year over year exchange rate fluctuations of the US dollar relative to the Canadian dollar. There was less adverse volatility in the rate in 2004. Management continues to monitor the rate closely.

Discontinued Operations

In December 2002, the Company made the decision to discontinue the spring and axle division along with its wholly owned US subsidiary. As a result of the transaction, management has been able to focus their efforts on the remaining businesses.

The sale closed on March 31, 2003. All costs incurred in 2003 relating to discontinued operations were accrued into the year ended 2002. Earnings from discontinued operations in the amount of \$63,418 (net of tax) relates to the reversal of a provision that had been set up for potential bad debts. Management was able to collect all trade accounts receivable and has therefore taken the full amount into income. There were no costs incurred in 2004 with respect to the above transaction.

Summary of Quarterly Results (\$000's)

	2004				2003			
	Mar 31	June 30	Sept 30	Dec 31	Mar 31	June 30	Sept 30	Dec 31
Total revenue	\$ 7,915	\$ 9,758	\$11,118	\$23,587	\$ 6,424	\$ 7,698	\$ 8,425	\$ 8,239
Net earnings (loss)	124	468	621	1,130	(86)	202	269	619
Basic earnings (loss) per share	0.01	0.02	0.04	0.06	(0.01)	0.01	0.02	0.04
Diluted earnings (loss) per share	0.01	0.02	0.04	0.06	(0.01)	0.01	0.02	0.03

Fourth Quarter

	2004	2003
Revenue	\$ 23,586,949	\$ 8,239,778
Earnings from operations	1,131,090	555,527
Earnings from discontinued operations	—	63,418
Net earnings	1,131,090	618,945
Basic earnings per share	0.06	0.04
Diluted earnings per share	0.06	0.03
Cash flows from operations before net change in non cash working capital items	2,155,182	564,761
Cash flows from operations before net change in non cash working capital items per share	0.12	0.03

The fourth quarter of 2004 saw an increase in revenue of \$15,347,171 over the fourth quarter of 2003. Seventy-seven percent of the increase is due to the purchase of Peerless Limited. The balance of the increase relates to the ability of Scona Trailer Manufacturing and the Oilfield Products Manufacturing segments to increase

throughput as efficiencies are put in place. Cash flow from operations before net change in non-cash working capital items increased over 2003 due to the recognition of the Peerless acquisition in the fourth quarter as well as the increased activity by existing McCoy operations.

Liquidity and Capital Resources

	2004	2003	2002
Cash provided by operating activities	\$ 3,472,716	\$ 800,023	\$ 2,282,676
Cash provided by (used in) investing activities	(11,926,111)	4,568,262	(419,759)
Cash provided by (used in) financing activities	8,334,327	(6,276,597)	(1,561,034)

Cash flow from operations increased by \$2,672,693 as a result of the large sales volumes achieved in 2004. Decrease in cash flows from investing activities is primarily due to the Peerless Limited acquisition in 2004 and sale-leaseback transactions in 2003. Cash used in financing activities also increased primarily due to financing obtained for the Peerless Limited acquisition.

Management believes that, with the projected level of operations for 2005 and the availability of funds under the established credit facility, the Company will have sufficient capital to fund its operations.

Debt to Equity Ratio over the past 3 years

	2004	2003	2002
	2.01 to 1	0.87 to 1	1.55 to 1

The increase in the Debt to Equity Ratio is primarily due to the purchase of Peerless Limited. The Company has taken a conservative approach as it relates to its use of debt to finance operations.

Financial Instruments

The fair values of accounts receivable, income taxes receivable, bank indebtedness, accounts payable, accrued liabilities, income taxes payable and floor plan financing approximate their carrying values due to the short terms to maturity.

The fair values of the mortgage receivable, long-term debt, obligations under capital leases and advances from related parties approximate their carrying values since their stated interest rates approximate the market

interest rates at December 31, 2004 and 2003. The fair value of the note receivable is not determinable since other securities with similar terms and characteristics are not readily available for comparative purposes.

The Company's debt consists of loans that are subject to interest rate fluctuation. If there is a 1% change in the prime lending rate the Company would incur approximately \$63,000 in annual interest reduction or increase.

The Company is exposed to credit risk through its accounts receivable. This risk is minimized due to the Company's large customer base. The Company manages credit risk by following a program of credit evaluation and by limiting the amount of customer credit where deemed necessary.

Contractual Obligations

In its continuing operations, the Company has entered into long-term contractual arrangements from time to time for its facilities and debt financing. The following

table presents contractual obligations arising from these arrangements currently in force over the next five years:

(in thousands of dollars)	Total	2005	2006	2007	2008	2009
Operating lease obligations	\$ 7,276	\$ 1,680	\$ 1,556	\$ 1,484	\$ 1,320	\$ 1,216
Obligations under capital leases	815	274	241	136	101	63
Long-term debt	750	150	150	150	150	150
Due to related parties	4,144	2,644	1,500	—	—	—

Transactions with Related Parties

Sale-leaseback

On May 1, 2003, the Company sold all of its land and buildings for the amount of \$5,793,000, measured at appraised fair market values. A vendor take-back second mortgage for \$700,000 was granted to the purchaser. The sale resulted in a gain of \$1,531,206 which will be recognized over 15 years, which is the term of the leases described below. Amortization of \$102,081 is included in income during 2004 (2003 - \$68,054).

Also, on May 1, 2003 the Company entered into lease agreements with the purchaser whereby the buildings will be leased for a period of 15 years. Minimum annual lease payments are \$680,620 for the first five years, \$751,459 for the following five years and are to be renegotiated at market rates for the last five years of the lease.

The purchaser and lessor is a partnership owned by certain directors and an officer of the Company. These individuals are also directors of Foundation Equity Corporation and as such this transaction is a related party transaction.

Operating lease

In February 2003 the Company entered into a lease for another building from a partnership owned by certain directors and an officer of the Company. These individuals are also directors of Foundation Equity Corporation. The minimum annual lease payments are \$232,000 for the next 14 years.

In October 2004 the Company entered into a lease for another building from a wholly owned subsidiary of Foundation Equity Corporation. Minimum annual lease payments are \$262,500 for the next five years, \$288,750 for the following five years and are to be renegotiated at market rates for the last five years of the lease.

Term loan

The Company entered into a loan agreement with Foundation Equity Corporation to borrow \$4,000,000 to provide financing for the purchase of Peerless Limited. The agreement is payable in quarterly instalments of \$500,000 from January 1, 2004 to November 1, 2006, with interest at 10%. A general security agreement has been pledged as collateral on the loan.

Outstanding Share Data

As at March 8, 2005 the following class of shares and equity securities potentially convertible into common shares were outstanding:

Common shares	17,711,773
Convertible equity securities	
Stock options	1,527,034
Warrants	200,000

Upon exercise, the stock options and warrants are convertible into an equal number of common voting shares. Had the stock options and warrants been fully exercised the aggregate number of common shares outstanding would be 19,438,807.

For details relating to the stock options and warrants, please refer to Note 14 of the notes to the 2004 audited consolidated financial statements.

Financial Guarantees

The Company has an irrevocable standby letter of credit pursuant to the sale of former properties as additional security that was required by the purchaser's bank. The amount of the letter of credit is \$60,000 and expires January 7, 2006.

Proposed Transactions

There are no proposed transactions at the time of writing this MD&A.

Critical Accounting Policies and Accounting Estimates

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP). Because the precise determination of certain assets and liabilities is dependent upon future events, the preparation of these consolidated financial statements necessarily includes the use of estimates and assumptions, which have been made using careful judgment. The Company believes that these estimates and assumptions are reasonable based upon the information that was available at the time these estimates and assumptions are made. Actual results could differ from those estimates.

The Company believes that there were no critical accounting estimates that would make a material impact on the financial statements.

Impact of New Accounting Pronouncements

Generally Accepted Accounting Principles ("GAAP")

A new standard is in effect at January 1, 2004, for identifying appropriate sources of generally accepted accounting principles, and the doctrines that constitute "GAAP". This standard did not have any impact on the consolidated financial statements.

Revenue recognition

In December 2003, the Emerging Issues Committee released EIC-141 "Revenue Recognition", which is effective on a prospective basis for the Company's 2004 fiscal year. EIC-141 incorporates the principles and guidance under U.S. GAAP for revenue recognition. The adoption of this standard did not have a material impact on the consolidated financial statements.

The Company recognizes truck & trailer services revenue as services are performed. Product sales are recognized at the time of title transfer. Manufacturing revenue is recognized on shipment and title transfer.

Asset impairment

Effective January 1, 2004, the Company adopted the recommendations of CICA Handbook Section 3063 Impairment of Long-Lived Assets, on a prospective basis. Section 3063 requires that an impairment test be performed when there is an indication of impairment. The impairment of long-lived assets held for use is established through a two-step process, with the first step determining when an impairment is recognized, and the second step measuring the amount of the impairment. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition, and is measured as the amount by which the long-lived asset's carrying amount exceeds its fair value. There is no material impact on the financial statements resulting from the adoption of Section 3063, nor has there been any triggering event that would indicate an impairment.

Asset retirement obligations

A new standard is in effect for fiscal years beginning on or after January 1, 2004, for recognizing, measuring and disclosing liabilities for asset retirement obligations and the associated costs. The Company adopted this standard on January 1, 2004 and concluded that its adoption did not result in the recognition of an asset retirement obligation.

Stock based compensation

Effective January 1, 2004, the Company adopted the new Canadian accounting standard for stock based compensation to employees. Awards of stock options to employees are accounted for in accordance with the fair value method of accounting for stock based compensation and result in compensation expense and contributed surplus. The fair value is measured at the date the options are granted. Any consideration paid on the exercise of stock options is credited to share capital. Previously the Company did not record any compensation expense upon the issuance of stock options. This change in accounting policy was applied on a retroactive basis for awards granted after January 1, 2002, prior periods were not restated, and resulted in the recognition of \$205,732 in compensation expense in 2004, deferred stock based compensation of \$649,068, a charge to opening deficit of \$97,200 and a credit to contributed surplus of \$952,000.

Consolidation of Variable Interest Entities ("VIEs"), AcG-15

In June 2003, the CICA issued a new accounting guideline which requires the consolidation of VIEs by the primary beneficiary. Revisions to this guideline were published by the CICA in August 2004 to harmonize with the U.S. VIE accounting standard. A VIE is an entity where (a) its equity investment at risk is insufficient to permit the entity to finance its activities without additional subordinated support from others and/or where certain essential characteristics of a controlling financial interest are not met, and (b) it does not meet specified exemption criteria. The primary beneficiary is the enterprise that will absorb or receive the majority of the VIE's expected losses, expected residual returns, or both. This guideline is effective for the Company's first quarter commencing January 1, 2005. The Company is still in the process of completing its full review regarding this guideline. However, the Company does not expect to have any VIE's. If the Company determines it has any VIE's AcG-15 would be adopted retroactively.

Risk Factors

The Company is exposed to various business risks, including the effect of a general downturn in the economy or a slow down in the oil and gas or the transportation sectors. The Company experienced the effects of a slow down in the oil and gas sector as well as a slowed US economy during 2002. By situating the Company to adapt to changing market conditions, exposure to such risk will be mitigated. This will be achieved by cost cutting strategies and expansion into other sectors through new targeted marketing strategies.

The potential loss of key personnel is another risk area the Company faces. In order to mitigate this risk, McCoy has signed long term employment contracts with those individuals identified as being of significant impact to the Company, as well as the placement of "Key Man Insurance". The shortage of skilled trades people available locally or regionally is generally expected to become increasingly problematic for businesses dependent upon qualified trades people. In response, the Company has recently expanded its recruiting efforts. An unseasonably warm winter can adversely affect our service operations. In many areas, drilling activity is dependent upon prolonged periods of cold weather to freeze the ground and allow heavy equipment access to off-road locations. If the equipment is not in active use, it is unlikely to require repair. Similarly, a late spring break-up (thaw) can delay routine repair and maintenance as the equipment will be kept in use until weather conditions no longer permit. The Oilfield Products Manufacturing segment sells a significant amount of its product to foreign countries. International sales are subject to inherent risks such as changes in regulatory requirements, delays from customs brokers or government agencies, or other trade barriers. Although most foreign sales are paid prior to shipping, there is potential risk related to any situation, such as war and civil insurrection that could disrupt the payment of monies owed to the Company. The Company purchased the shares of Peerless Limited in 2004. If integration of new businesses does not occur as expected, or their performance is less than expected, the Company's revenues may be lower and operational costs higher than expected. Future acquisition opportunities may not be identified and obtained on suitable terms.

Outlook for 2005

Market conditions for the oil and gas sector in Western Canada are expected to continue to be favourable throughout 2005. Additionally, the Company expects the forestry and construction sectors in Alberta and British Columbia to remain strong. Management will continue to push forward with productivity enhancing initiatives in order to take the best advantage possible of the current market environment. The Company will continue to pursue strategic acquisitions. Foreign exchange volatility and uncertain material supply markets will continue to prevail throughout the year. Despite these hurdles, the management team is confident that 2005 will be another positive step in our Company's growth.

Forward Looking Statements

Certain statements in this management's discussion and analysis may constitute "forward looking statements" and although management of the Company believes that its expectations are based upon reasonable assumptions, it can give no assurance that its expectations will be achieved. Such forward looking statements involve risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

March 8, 2005

Management is responsible for the preparation and presentation of the consolidated financial statements and all other information in the annual report. The financial statements have been prepared in accordance with generally accepted accounting principles in Canada. Financial and operating data presented elsewhere in the annual report are consistent with the information contained in the financial statements.

Management maintains a system of internal controls which provides reasonable assurance that the assets of the Company and its subsidiaries are safeguarded and which facilitates the preparation of timely, relevant and reliable financial information which reflects, when necessary, Management's best estimates and judgements based on informed knowledge of the facts.

The Board of Directors, acting through the Audit Committee, is responsible for determining that Management fulfills its responsibilities in the

preparation of financial statements and the financial control of operations. The Audit Committee has reviewed the consolidated financial statements and Management's Discussion and Analysis with Management and have recommended their approval to the Board of Directors. The independent auditors have unrestricted access to the Audit Committee.

The financial statements have been examined by PricewaterhouseCoopers, LLP, Chartered Accountants, and their report follows.



Jim Rakievich
President and Chief Executive Officer

AUDITORS' REPORT

March 8, 2005

To the Shareholders of McCoy Bros. Inc.

We have audited the consolidated balance sheets of McCoy Bros. Inc. as at December 31, 2004 and 2003 and the consolidated statements of operations, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Edmonton, Alberta

CONSOLIDATED BALANCE SHEETS

As at December 31, 2004 and 2003	2004	2003
Assets		
Current assets		
Cash	\$ 474,633	\$ 593,701
Accounts receivable	10,871,969	3,920,467
Income taxes receivable	423,738	–
Current portion of note receivable (note 6)	–	18,667
Inventories (note 3)	12,823,628	4,180,335
Future income taxes (note 12)	1,184,322	484,680
Prepaid expenses and deposits	325,028	156,365
	26,103,318	9,354,215
Mortgage receivable (note 5)	700,000	700,000
Note receivable (note 6)	–	171,002
Property, plant and equipment (note 4)	6,553,852	2,404,310
Future income taxes (note 12)	1,791,225	3,629,878
Goodwill	45,567	45,567
Deferred stock based compensation (notes 2(m) and 14)	649,068	–
	35,843,030	16,304,972
Liabilities		
Current liabilities		
Bank indebtedness (note 7)	4,280,810	280,248
Accounts payable and accrued liabilities	11,714,431	3,842,890
Income taxes payable	–	16,929
Floor plan financing (note 8)	244,000	90,500
Current portion of long-term debt (note 9)	150,000	–
Current portion of obligations under capital lease (note 10)	247,859	209,817
Current portion of advances from related parties (note 11)	2,643,937	–
	19,281,037	4,440,384
Long-term debt (note 9)	1,312,500	–
Obligations under capital lease (note 10)	490,147	517,449
Deferred gain (note 19(a))	1,361,071	1,463,152
Advances from related parties (note 11)	1,500,000	1,148,165
	23,944,755	7,569,150
Commitments and contingencies (note 16)		
Shareholders' Equity		
Share capital (notes 2(m) and 14)	13,005,695	12,854,825
Contributed surplus (note 14)	940,747	–
Deficit	(2,048,167)	(4,119,003)
	11,898,275	8,735,822
	35,843,030	16,304,972

Approved by the Board of Directors



Director



Director

CONSOLIDATED STATEMENTS OF DEFICIT

For the years ended December 31, 2004 and 2003

	2004	2003
Balance – Beginning of year		
As previously reported	\$ (4,119,003)	\$ (5,122,775)
Adjustment for stock based compensation (note 2(m))	(97,200)	–
As restated	(4,216,203)	(5,122,775)
Net earnings for the year	2,343,374	1,003,772
Dividends paid	(175,338)	–
Balance – End of year	(2,048,167)	(4,119,003)

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 2004 and 2003

	2004	2003
Revenue	\$ 52,378,652	\$ 30,786,132
Cost of sales	35,149,883	20,568,527
Gross profit	17,228,769	10,217,605
Expenses		
Salaries and commissions	6,901,072	4,609,650
Operations	4,188,519	2,692,227
Amortization	760,456	634,537
Selling	600,203	389,494
Corporate services	433,143	436,098
Interest on debt	266,583	385,491
Stock based compensation	205,732	–
Loss on foreign exchange	12,793	51,954
	13,368,501	9,199,451
Earnings before income taxes and discontinued operations	3,860,268	1,018,154
Income taxes (note 12)		
Current	379,883	18,758
Future	1,137,011	59,042
	1,516,894	77,800
Earnings before discontinued operations	2,343,374	940,354
Discontinued operations (note 13)	–	63,418
Net earnings for the year	2,343,374	1,003,772
Earnings per share (note 15)		
Basic – before discontinued operations	\$ 0.13	\$ 0.05
Basic	0.13	0.06
Diluted – before discontinued operations	0.13	0.05
Diluted	0.13	0.05

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2004 and 2003

	2004	2003
Cash provided by (used in)		
Operating activities		
Earnings before discontinued operations	\$ 2,343,374	\$ 940,354
Items not affecting cash		
Amortization	760,456	634,537
Future income taxes	1,137,011	59,042
Stock based compensation	205,732	–
Amortization of deferred gain	(102,081)	(68,054)
Loss on settlement of note receivable	70,702	–
Cash flow from operations before the following	4,415,194	1,565,879
Net change in non-cash working capital items	(942,478)	(765,856)
	3,472,716	800,023
Financing activities		
Net proceeds of bank indebtedness for acquisition (note 1)	5,515,617	–
Net repayment of bank indebtedness	(1,515,055)	(2,841,947)
Repayment of obligations under capital lease	(242,286)	(422,064)
Repayment of long-term debt	(37,500)	(1,799,247)
Proceeds from long-term debt	1,500,000	–
Repayment of floor plan financing	(1,133,500)	(1,798,000)
Proceeds from floor plan financing	1,287,000	1,688,000
Repayment of advances from related parties	(1,004,228)	(1,153,000)
Increase in advances from related parties	4,000,000	49,661
Dividends paid	(175,338)	–
Issuance of share capital	139,617	–
	8,334,327	(6,276,597)
Investing activities		
Purchase of property, plant and equipment	(1,029,461)	(194,397)
Proceeds from note receivable	118,967	–
Business acquisition (note 1)	(11,015,617)	–
Proceeds from sale of property, plant and equipment	–	4,762,659
	(11,926,111)	4,568,262
Decrease in cash from continuing operations	(119,068)	(908,312)
Cash from discontinued operations (note 13)	–	973,948
(Decrease) increase in cash	(119,068)	65,636
Cash – Beginning of year	593,701	528,065
Cash – End of year	474,633	593,701
Supplementary information		
Income taxes received	–	32,301
Income taxes paid	421,000	29,763
Interest received	158,342	231,803
Interest paid	260,054	368,504

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

1 Business Acquisition

On September 24, 2004, McCoy Bros. Inc. ("McCoy") purchased 100% of the shares of Peerless Limited ("Peerless") from Peerless Corporation, a wholly owned subsidiary of John Deere.

The acquisition has been accounted for using the purchase method and the financial statements include operating results of Peerless since September 24, 2004.

Fair value of net assets acquired for cash:

Current assets	\$ 11,112,716
Property, plant and equipment	3,466,311
Current liabilities	(3,561,410)
Future income taxes	(2,000)
Fair value of net assets acquired	11,015,617

The purchase price was funded as follows:

Bank indebtedness (note 7)	\$ 5,515,617
Long-term debt (note 9)	1,500,000
Advances from related parties (note 11)	4,000,000
	11,015,617

2 Significant accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The recoverable value of future income taxes and amortization of property, plant and equipment are the more significant items subject to estimate in these financial statements. Actual results could differ from those estimates. These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

a) Generally Accepted Accounting Principles ("GAAP")

A new standard is in effect at January 1, 2004, for identifying appropriate sources of generally accepted accounting principles, and the doctrines that constitute "GAAP". This standard did not have any impact on the consolidated financial statements.

b) Basis of consolidation

These consolidated financial statements include the accounts of McCoy Bros. Inc., its wholly owned subsidiary Peerless Limited and its proportionate

share of the assets, liabilities, revenue and expenses of a joint venture (collectively the "Company"). All inter-company transactions and balances are eliminated.

c) Revenue recognition

In December 2003, the Emerging Issues Committee released EIC-141 "Revenue Recognition", which is effective on a prospective basis for the Company's 2004 fiscal year. EIC-141 incorporates the principles and guidance under U.S. GAAP for revenue recognition. The adoption of this standard did not have a material impact on the consolidated financial statements.

The Company recognizes truck & trailer services revenue as services are performed. Product sales are recognized at the time of title transfer. Manufacturing revenue is recognized on shipment and title transfer.

d) Inventories

Raw materials inventory is recorded at the lower of cost, as determined on a first in, first out basis, and replacement cost. Truck inventory and inventories of finished goods and work-in-progress are recorded at the lower of cost, as determined on a first in, first out basis, and net realizable value.

e) Property, plant and equipment

Property, plant and equipment is recorded at cost. Amortization is provided for using the straight-line method over their estimated useful lives, as follows:

Building	40 years
Equipment	
Machinery	3 – 10 years
Office	5 years
Automotive	5 years
Computer equipment and software	1 – 5 years
Deferred development costs	3 – 4 years
Leasehold improvements	Life of related lease

Development costs are expensed in the period incurred unless technical and market viability of a development project has been established. Deferred development costs are amortized on a straight-line basis over the expected use of the product. Amortization commences upon use of the product.

f) Asset impairment

Effective January 1, 2004, the Company adopted the recommendations of CICA Handbook Section 3063 Impairment of Long-Lived Assets, on a prospective basis. Section 3063 requires that an impairment test be performed when there is an indication of impairment. The impairment of long-lived assets held for use is established through a two-step process, with the first step determining when an impairment is recognized, and the second step measuring the amount of the impairment. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition, and is measured as the amount by which the long-lived asset's carrying amount exceeds its fair value. There is no material impact on the financial statements resulting from the adoption of Section 3063, nor has there been any triggering event that would indicate an impairment.

g) Asset retirement obligations

A new standard is in effect for fiscal years beginning on or after January 1, 2004, for recognizing, measuring and disclosing liabilities for asset retirement obligations and the associated costs. The Company adopted this standard on January 1, 2004 and concluded that its adoption did not result in the recognition of an asset retirement obligation.

h) Goodwill

Goodwill relates to the difference between the Company's cost of acquiring businesses and the fair value of the identified net assets. Goodwill is tested for impairment at least annually and written down to fair value if the criteria for impairment are met.

At December 31, 2004, the cost of goodwill is \$475,560 (2003 - \$474,560) and accumulated amortization is \$428,993 (2003 - \$428,993).

i) Warranty provision

The Company provides an accrual of estimated warranty expense based on information available with respect to historic results and new product offerings.

j) Translation of foreign currencies

Transactions denominated in foreign currencies are translated at the rate in effect at the transaction date. Foreign currency denominated monetary assets and liabilities are translated at the rate in effect at the balance sheet date. Resulting foreign exchange gains or losses are included in income.

k) Earnings per share

Earnings per share is based on the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method. Under the treasury stock method, the deemed proceeds from the exercise of dilutive securities are considered to be used to acquire common shares at the average market price during the year.

l) Future income taxes

The Company follows the liability method of income tax allocation. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is included in earnings in the period that includes the date of substantial enactment. A valuation allowance is provided to the extent that it is more likely than not that future income taxes will not be realized.

m) Stock based compensation

Effective January 1, 2004, the Company adopted the new Canadian accounting standard for stock based compensation to employees. Awards of stock options to employees are accounted for in accordance with

the fair value method of accounting for stock based compensation and result in compensation expense and contributed surplus. The fair value is measured at the date the options are granted. Any consideration paid on the exercise of stock options is credited to share capital. Previously the Company did not record any compensation expense upon the issuance of stock options. This change in accounting policy was applied on a retroactive basis for awards granted after January 1, 2002, prior periods were not restated, and resulted in the recognition of \$205,732 in compensation expense in 2004, deferred stock based compensation of \$649,068, a charge to opening deficit of \$97,200 and a credit to contributed surplus of \$952,000.

3 Inventories

	2004	2003
Raw materials	\$ 6,545,653	\$ 288,489
Work-in-progress	2,051,824	1,146,982
Finished goods	3,475,967	2,116,413
Trucks	750,184	628,451
	12,823,628	4,180,335

4 Property, plant and equipment

	2004		
	Cost	Accumulated amortization	Net
Land	\$ 183,337	\$ –	\$ 183,337
Building	2,711,436	401,813	2,309,623
Machinery and office equipment	7,469,213	4,154,011	3,315,202
Automotive equipment	786,346	642,255	144,091
Computer equipment and software	1,717,713	1,330,590	387,123
Leasehold improvements	563,864	444,714	119,150
	13,431,909	6,973,383	6,458,526
Deferred development costs	872,620	777,294	95,326
	14,304,529	7,750,677	6,553,852

	2003		
	Cost	Accumulated amortization	Net
Machinery and office equipment	\$ 3,909,800	\$ 2,222,118	\$ 1,687,682
Automotive equipment	321,650	248,763	72,887
Computer equipment and software	798,256	570,731	227,525
Leasehold improvements	463,024	344,051	118,973
	5,492,730	3,385,663	2,107,067
Deferred development costs	1,124,178	826,935	297,243
	6,616,908	4,212,598	2,404,310

Property, plant and equipment under capital lease included above have a cost of \$1,357,439 (2003 - \$1,045,229) and accumulated amortization of \$345,157 (2003 - \$905,648).

Deferred development costs incurred in prior years relating to machinery were reclassified to machinery and equipment as the machinery is now in productive use.

5 Mortgage Receivable

On May 1, 2003, the Company sold its land and buildings for \$5,793,000. A vendor take-back second mortgage for \$700,000 has been granted to the purchaser (see note 19(a)). The vendor take-back mortgage bears interest at 7.36% per annum, which is payable on the last day of each month from May 2003 to April 2008. Beginning in May 2008, blended principal and interest payments of \$6,390 shall be payable monthly to April 2013. Interest revenue in the amount of \$51,520 has been recorded in the financial statements for 2004 (2003 - \$34,319).

6 Note Receivable

On March 31, 2003, the Company sold the property, plant and equipment of the former Spring and Axle division to a group of former management (see note 13) for the net book value of \$189,669, to be paid in ten equal annual instalments, starting on the first anniversary date. The property, plant and equipment are pledged as collateral on the note receivable. No interest is charged on the outstanding balance. In December 2004, the Company reached a settlement with the group in order to retire the receivable and accepted \$118,967 as full and final payment. This resulted in a loss on settlement of \$70,702.

7 Bank indebtedness

The Company has an operating line of credit facility with a limit of \$6,000,000 (2003 - \$2,000,000), repayable on demand with interest payable monthly at prime plus 1.00%. At December 31, 2004, the rate is 5.5%

(2003 - 4.5%). A general security agreement over all past and future property are pledged as collateral on this facility.

	2004	2003
Amounts drawn on line of credit facility	\$ 4,280,810	\$ 280,248

8 Floor plan financing

Floor plan financing is for new truck inventory which, along with a general security agreement, has been pledged as collateral. Interest on the floor plan

financing is payable monthly at prime. At December 31, 2004 the rate is 4.5% (2003 - 4.5%).

9 Long-term debt

	2004	2003
Mortgage loan, payable in monthly instalments of \$12,500 until 2014, plus interest at prime plus 1.50%, land and buildings with a net book value of \$2,492,960 at December 31, 2004 are pledged as collateral	\$ 1,462,500	–
Less: Current portion	150,000	–
	<u>1,312,500</u>	<u>–</u>

The interest on long-term debt in 2004 is \$20,594 (2003 – \$nil).

The principal payments for the next five years are:

2005	\$ 150,000
2006	150,000
2007	150,000
2008	150,000
2009	150,000

10 Obligations under capital lease

Minimum lease payments

2005	\$ 273,934
2006	240,783
2007	135,594
2008	100,849
2009	62,996
	<u>814,156</u>
Less: Amount representing interest (at rates ranging from 6.46% to 8.95%)	76,150
	<u>738,006</u>
Less: Current portion	247,859
	<u>490,147</u>

The interest on obligations under capital lease in 2004 is \$47,044 (2003 – \$44,311).

11 Advances from related parties

	2004	2003
Foundation Equity Corporation – term loan	\$ 3,598,780	\$ –
Foundation Equity Corporation – convertible promissory note	545,157	1,148,165
	<u>4,143,937</u>	<u>1,148,165</u>
Less: Current portion	2,643,937	–
	<u>1,500,000</u>	<u>1,148,165</u>

11 Advances from related parties (cont'd)

On September 24, 2004, Foundation Equity Corporation, parent of the controlling shareholder, advanced \$4 million in term debt to the Corporation for the sole purpose of contributing to the purchase of the Peerless shares. The loan is repayable over a two-year term with quarterly instalments of \$500,000 from January 1, 2004 to November 1, 2006, with an interest rate of 10%. A general security agreement has been pledged over all of the assets of McCoy Bros. Inc. and Peerless Limited as collateral on the loan. The interest incurred during the year is \$98,780 (2003 - \$nil).

The convertible promissory note is subordinated to bank indebtedness and long-term debt with collateral provided by a general security agreement. This promissory note matures on April 15, 2005, with interest payable calculated at bank prime plus 1.2%. At December 31, 2004, the rate is 5.45% (2003 - 5.7%). The interest incurred during the year is \$51,222 (2003 - \$76,055).

The note is convertible, in whole or in part, at the option of Foundation Equity Corporation, into common shares of the Company at any time on or before the maturity date. The conversion price shall be the greater of:

- the volume weighted average closing price of the common shares on the Toronto Stock Exchange for the thirty trading days prior to Foundation Equity Corporation giving notice of conversion, and
- the closing price of common shares on the day prior to the notice of conversion.

The remaining total number of common shares that may be issued pursuant to one or more conversions under the note may not exceed 2,988,353 common shares without the prior written consent of the Toronto Stock Exchange.

The principle payments due in the next two years are:

2005	\$ 2,643,937
2006	1,500,000

12 Income taxes

The income tax provision differs from the amounts computed by applying the combined federal and

provincial income tax rate of 33.87% (2003 - 36.74%) to pre-tax income as a result of the following:

	2004	2003
Earnings before income taxes and discontinued operations	\$ 3,860,268	\$ 1,018,154
Computed "expected" income taxes	1,307,473	374,070
Non-deductible (non-taxable) items	78,725	(348,128)
	1,386,198	25,942
Differences resulting from:		
Different rates due to small business deduction and B.C. jurisdiction	(13,397)	(23,496)
Decrease in enacted tax rates	136,147	65,938
Other	7,946	9,416
Income taxes	1,516,894	77,800

The income tax effect of temporary differences that give rise to significant balances of the future tax assets and liabilities at the balance sheet date are summarized as follows:

	2004	2003
Future tax assets (liabilities) resulting from		
Deferred gain	\$ 457,591	\$ 506,543
Property, plant and equipment	1,576,019	1,552,807
Warranty reserve	181,011	19,617
Inventory obsolescence	238,885	123,678
Non-capital losses carried forward	958,031	2,327,808
Deferred development costs	(128,317)	(120,044)
Investment in joint venture	(87,405)	(72,102)
Other	650	2,732
Valuation allowance	(220,918)	(226,481)
Net future income taxes	2,975,547	4,114,558
Less: Current portion	1,184,322	484,680
	1,791,225	3,629,878

13 Discontinued operations

On March 31, 2003, the Company sold, to a management buyout group, the shares of McCoy Bros. Group Inc., a wholly owned subsidiary, for a cash price equal to the book value of the net assets of the subsidiary, which was \$398,068. On the same date, the property, plant and equipment of the Spring and Axle division were sold for net book value of \$189,669 (note 6). Inventory of the

Spring and Axle division, totalling \$803,583, was consigned to the purchaser. The terms of the consignment are twelve equal payments beginning July 31, 2003. No interest was to be charged on these outstanding balances. The Company does not allocate interest expense to discontinued operations.

	2004	2003
Revenue applicable to discontinued operations	\$ -	\$ -
Operating income to the measurement date	-	-
Income taxes	-	-
Earnings from discontinued operations from the measurement date to the disposal date	-	97,000
Income taxes	-	(33,582)
	-	63,418
Net earnings from discontinued operations	-	63,418

Net assets of discontinued operations at the balance sheet date are summarized as follows:

	2004	2003
Working capital	\$ -	\$ 111,196
Property, plant and equipment	-	-
Cash flows from discontinued operations consist of cash provided by (used in):		
Operating activities	\$ -	\$ 1,040,508
Financing activities	-	(52,085)
Investing activities	-	(14,475)
Cash from discontinued operations	-	973,948

14 Share capital

a) Authorized

Unlimited number of common, voting shares

Unlimited number of preferred, non-voting shares

b) Issued

	2004		2003	
	Common shares	Amount	Common shares	Amount
Balance – Beginning of year	# 17,533,807	\$ 12,854,825	# 17,533,807	\$ 12,854,825
Shares issued on exercise of stock options	115,293	150,870	-	-
Balance – End of year	17,649,100	13,005,695	17,533,807	12,854,825

Shares issued on the exercise of stock options resulted in a charge of \$11,253 to contributed surplus.

14 Share capital (cont'd)

c) Warrants

At December 31, 2004, there were 200,000 (2003 - 200,000) warrants outstanding. The warrants were granted to Foundation Equity Corporation in fiscal 2001 as part of an inducement to extend the maturity date of the convertible promissory note payable. The warrants have an exercise price of \$2 per share and expire on June 25, 2006.

d) Options

The Company stock option plan for employees is administered by the Compensation Committee, which is a subcommittee of the Board of Directors. The Compensation Committee designates eligible participants to be included under the plan and designates the number of options and share price of the options, subject to applicable securities laws and stock exchange regulations.

Significant terms of the stock option plan include: the total number of common shares reserved for issuance cannot exceed 1,753,380 shares; no more than 5% of outstanding shares may be reserved for options granted to any one person; no more than 10% of outstanding shares may be reserved for options granted to insiders; the options vest over a period specified by the plan administrator and the maximum term of options issued under the plan cannot exceed five years. The exercise price of options is determined by the board of directors, but cannot be lower than the market price of shares on the last trading day preceding the grant date.

The following reflects activity under the stock option plan from December 31, 2002 through December 31, 2004, and the weighted average exercise prices.

	Number of common shares under option	Weighted Average Exercise Price
Outstanding – December 31, 2002	# 1,400,000	\$ 1.13
Issued	–	–
Cancelled	(165,000)	2.01
Outstanding – December 31, 2003	1,235,000	1.02
Issued	695,000	1.53
Exercised	(115,293)	1.21
Expired	(180,000)	2.45
Cancelled	(15,000)	0.40
Outstanding – December 31, 2004	1,619,707	1.08
Exercisable – December 31, 2004	1,223,333	0.98
Exercisable – December 31, 2003	964,990	1.24

The following options are outstanding as at December 31, 2004:

Expiry Date	Remaining contractual life (months)	Number of common shares under option	Exercise price
January 3, 2005	1	# 5,000	\$ 2.10
January 5, 2005	1	25,000	2.10
May 31, 2005	5	10,000	2.00
October 17, 2005	10	40,000	1.75
October 9, 2005	10	100,000	2.00
June 13, 2006	18	10,000	2.00
June 12, 2007	30	10,000	0.55
December 4, 2007	36	728,040	0.40
January 15, 2009	49	6,667	0.40
December 23, 2007	36	500,000	0.95
November 10, 2009	59	185,000	3.15
Total outstanding		1,619,707	

The Company used the Black-Scholes option pricing model to estimate the fair value of the options granted to employees in 2004 and 2003. The following weighted average assumptions were used:

14 Share capital (cont'd)

	2004	2003
Annualized volatility	151%	143%
Risk free interest rate	3.5%	3.5%
Expected life of options	3 years	3 years
Dividend	0.0%	0.0%

The weighted average fair value of options granted during the year was \$1.16/option (2003 - \$Nil /option). Application of the fair value method resulted in a charge to stock based compensation expense of \$205,732 with corresponding credits to contributed surplus.

e) Contributed Surplus

The Company records contributed surplus when options are issued. The following is a summary of activity during the year.

Contributed surplus – December 31, 2003	\$	–
Adjustment to opening retained earnings for stock based compensation expense		97,200
Stock based compensation expense		205,732
Deferred stock based compensation		649,068
Exercise of stock options		(11,253)
Contributed surplus – December 31, 2004		940,747

15 Earnings per share

	2004			2003		
	Earnings (numerator)	Shares (denominator)	Per share amount	Earnings (numerator)	Shares (denominator)	Per share amount
Basic earnings per share						
Earnings before discontinued operations	\$2,343,374	17,562,630	\$ 0.13	940,354	17,533,807	\$ 0.05
Discontinued operations	–	–		63,418	–	
Earnings available to common shareholders	2,343,374	17,562,630	0.13	1,003,772	17,533,807	0.06
Diluted earnings per share						
Earnings before discontinued operations	2,343,374	17,562,630	0.13	940,354	17,533,807	0.05
Discontinued operations	–	–		63,418	–	
Dilutive effect of options	–	657,360		–	–	
Dilutive effect of convertible promissory note	26,595	194,699		26,445	2,988,353	
Earnings available to common shareholders	2,369,969	18,414,689	0.13	1,030,217	20,522,160	0.05

16 Commitments and contingencies

a) Commitments

The Company is committed to payments under operating leases for premises and equipment as follows:

2005	\$ 1,680,119
2006	1,555,859
2007	1,483,974
2008	1,320,001
2009	1,216,443

Also see note 19 for commitments relating to 2010 and beyond.

b) Contingencies

The Company is a co-defendant in a lawsuit alleging negligence in the installation of tire pressure control systems. The litigation relating to the Statement of Claim for \$1,570,000 is in its preliminary stages and

the outcome is not currently determinable. A loss, if any, would be partially covered by the Company's insurance.

17 Financial instruments

The fair values of accounts receivable, income taxes receivable, bank indebtedness, accounts payable, accrued liabilities, income taxes payable and floor plan financing approximate their carrying values due to the short terms to maturity.

The fair values of the mortgage receivable, long-term debt, obligations under capital leases and advances from related parties approximate their carrying values since their stated interest rates approximate the market interest rates at December 31, 2004 and 2003. The fair value of the note receivable is not determinable since other securities with similar terms and characteristics are not readily available for comparative purposes.

The Company's debt consists of loans that are subject to interest rate fluctuation. If there is a 1% change in the prime lending rate the Company would incur approximately \$63,000 in annual interest reduction or increase.

The Company is exposed to credit risk through its accounts receivable. This risk is minimized due to the Company's large customer base. The Company manages credit risk by following a program of credit evaluation and by limiting the amount of customer credit where deemed necessary.

18 Financial guarantees

The Company issued an irrevocable standby letter of credit pursuant to the sale of land and buildings as additional security that was required by the purchaser's bank. The amount of the letter of credit is \$60,000 and expires January 13, 2006.

19 Related party transactions

a) Sale-leaseback

On May 1, 2003, the Company sold all of its land and buildings for the amount of \$5,793,000, measured at appraised fair market values. A vendor take-back second mortgage for \$700,000 was granted to the purchaser (see note 5). The sale resulted in a gain of \$1,531,206, which will be recognized over 15 years, which is the term of the leases described below. Amortization of \$102,081 is included in income during 2004 (2003 - \$68,054).

Also on May 1, 2003, the Company entered into lease agreements with the purchaser, whereby the buildings will be leased for a period of 15 years. Minimum annual lease payments are \$680,620 for the first five years, \$751,459 for the following five years and are to be renegotiated at market rates for the last five years of the lease.

The purchaser and lessor is a partnership owned by certain directors and an officer of the Company and certain directors of Foundation Equity Corporation.

b) Operating lease

In February 2003, the Company entered into a lease for another building from another partnership owned by certain directors and an officer of the Company and certain directors of Foundation Equity Corporation. The minimum annual lease payments are \$232,000 for the next 14 years.

In October 2004, the Company entered into a lease for another building from a wholly owned subsidiary of Foundation Equity Corporation. Minimum annual lease payments are \$262,500 for the next five years, \$288,750 for the following five years and are to be renegotiated at market rates for the last five years of the lease.

20 Interest in joint venture

The major components of the Company's 50% proportionate interest in Prairie Truck Ltd., included in these consolidated financial statements are as follows:

	2004	2003
Current assets	\$ 2,183,859	\$ 1,854,650
Total assets	2,387,589	2,066,660
Current liabilities	609,462	444,431
Total liabilities	609,462	444,431
Revenue	6,079,155	6,452,426
Cost of sales	4,617,159	5,069,340
Gross profit	1,461,996	1,383,086
Expenses	991,389	950,588
	470,607	432,498
Income taxes	19,410	19,392
	451,197	413,106
Cash provided by (used in)		
Operating activities	(48,123)	233,234
Financing activities	153,500	(42,000)
Investing activities	(42,114)	(72,896)

21 Segment disclosures

Due to changes in the structure of the Company's internal organization during the year, the composition of reportable segments has changed. The corresponding information for the prior year has been restated.

The Company has three reportable segments in which it operates: truck & trailer products & services, trailer manufacturing, oil field products manufacturing. The Company's reportable segments offer different products and services and are managed separately due to different technology and marketing strategies. The Company has sales with a wide variety of customers primarily in the Provinces of Alberta and British Columbia, Canada.

The accounting policies of the segments are the same as those described in note 2. The Company evaluates segment performance based on earnings before interest and income taxes. The Company accounts for inter-segment sales and transfers as if the sales or transfers were to third parties. No single customer accounts for more than 10% of total revenue.

The Company serves the general transportation, construction and petroleum industries by providing heavy truck parts, repair and maintenance services; manufacturing and distributing heavy duty trailers and manufacturing oil field products such as hydraulic powertongs for use primarily in the oil and gas industry.

21 Segment disclosures (cont'd)

	2004				
	Truck & Products & Services	Trailer Manufacturing	Oil Field Products Manufacturing	Intersegment Eliminations	Total
Sales by segment					
Total external sales	\$ 20,683,242	\$ 18,284,112	\$ 13,411,298	\$ –	\$ 52,378,652
Total inter-segment sales	34,022	–	6,869	(40,891)	–
Total sales	20,717,264	18,284,112	13,418,167	(40,891)	52,378,652
Amortization	193,876	176,516	390,064	–	760,456
Other expenses	19,696,818	16,204,906	10,806,749	(40,891)	46,667,582
Earnings before interest, income taxes, corporate charges and discontinued operations	826,570	1,902,690	2,221,354	–	4,950,614
Corporate charges	274,588	274,587	274,588	–	823,763
Earnings before income taxes, interest and discontinued operations	551,982	1,628,103	1,946,766	–	4,126,851
Interest on debt					266,583
Earnings before income taxes and discontinued operations					3,860,268
Total identifiable assets	11,027,117	13,942,880	10,873,033		35,843,030
Additions to property, plant & equipment	527,499	87,882	667,106		1,282,483

21 Segment disclosures (cont'd)

2003

	Truck & Trailer Products & Services	Trailer Manufacturing	Oil Field Products Manufacturing	Intersegment Eliminations	Total
Sales by segment					
Total external sales	\$ 15,714,746	\$ 6,439,256	\$ 8,632,130	–	\$ 30,786,132
Total inter-segment sales	9,605	–	32,528	(42,133)	–
Total sales	15,724,351	6,439,256	8,664,658	(42,133)	30,786,132
Amortization	167,643	144,465	322,429	–	634,537
Other expenses	15,081,648	5,989,356	7,267,201	(42,133)	28,296,072
Earnings before interest, income taxes, corporate charges and discontinued operations					
	475,060	305,435	1,075,028	–	1,855,523
Corporate charges	150,626	150,626	150,626	–	451,878
Earnings before interest, income taxes and discontinued operations					
	324,434	154,809	924,402	–	1,403,645
Interest on debt					385,491
Earnings before income taxes and discontinued operations					1,018,154
Total identifiable assets	6,688,577	2,872,919	6,743,476		16,304,972
Additions to property, plant & equipment	566,738	6,130	314,225		887,093

21 Segment disclosures (cont'd)

	2004	2003
Additions to property, plant and equipment per above	\$ 1,282,487	\$ 887,093
Property, plant and equipment under capital lease additions	(253,026)	(692,696)
Purchase of property, plant and equipment per consolidated statement of cash flows	1,029,461	194,397

Geographic information

	2004		2003	
	Revenue	Property, plant and equipment and goodwill	Revenue	Property, plant and equipment and goodwill
Canada	\$ 41,220,369	\$ 6,599,419	\$ 24,492,505	\$ 2,449,877
US	4,161,916	–	2,987,918	–
Other countries	7,096,367	–	3,305,709	–
	\$ 52,478,652	\$ 6,599,419	\$ 30,786,132	\$ 2,449,877

Revenue is allocated to geographic regions based on the customer location.

CORPORATE INFORMATION

Auditors

PricewaterhouseCoopers, LLP
Edmonton, Alberta

Bankers

The Bank of Nova Scotia
Edmonton, Alberta

Corporate Counsel

Davis & Company
Calgary, Alberta

Transfer Agent and Registrar

Olympia Trust Company
Edmonton, Alberta

Stock Exchange - The Toronto Stock Exchange

Trading Symbol - MCB

Board of Directors

Kerry Brown
Terry Chalupa
John Howard
David Macdonald
Terry McCoy
Jim Rakievich

Board Committees

Audit Committee

John Howard (Chair), David Macdonald, Terry McCoy

Compensation Committee

Terry Chalupa (Chair), Kerry Brown, John Howard

Governance Committee

Kerry Brown (Chair), Terry Chalupa, Terry McCoy

Officers

Jim Rakievich, President and Chief Executive Officer

Kerry Brown, Chief Financial Officer

Milica Stolic, Director of Finance

Peggy Robertson, Director of Corporate Affairs

All Shareholders and other interested parties are cordially invited to join the Board of Directors and senior management team at the Annual General and Special Meeting on Thursday May 19, 2005.

The meeting and informal reception following will be held at The Sutton Place Hotel, 10235 - 101 Street, Edmonton, Alberta at 4:00 o'clock in the afternoon.

LOCATIONS AND CONTACT INFORMATION

McCoy Bros. Inc. **Corporate Offices**

3904 - 78 Avenue
Edmonton, Alberta T6B 2W4
Phone: (780) 453-8451
Fax: (780) 453-8756
www.mccoybros.com

Oilfield Products Manufacturing

Farr Canada

14755 - 121A Avenue
Edmonton, Alberta T5L 2T2
Phone: (780) 453-3277
Toll Free: 1-877-453-3277
Fax: (780) 455-2432
www.farrcanada.com

Red Deer Service

4841 - 78 Street
Red Deer, Alberta T4P 1N5
Phone: (403) 343-8771
Toll Free: 1-800-662-7115
Fax: (403) 340-0888
www.mccoyservice.com

Trailer Manufacturing

Scona Trailer Manufacturing

3904 - 78 Avenue
Edmonton, Alberta T6B 2W4
Phone: (780) 447-2662
Toll Free: 1-866-657-2662
Fax: (780) 468-1750
www.sconatrailers.com

Peerless Limited - Penticton

575 Page Avenue
Penticton, British Columbia V2A 6P3
Phone: (250) 492-0408
Fax: (250) 492-7353
www.peerless.ca

Truck & Trailer Products & Services

Prairie Truck Ltd. - Grande Prairie

9916 - 108 Street
Grande Prairie, Alberta T8V 4E1
Phone: (780) 532-3541
Toll Free: 1-877-532-3541
Fax: (780) 539-0841

Peerless Limited - Edmonton

4807 - 82 Avenue
Edmonton, Alberta T6B 0E5
Phone: (780) 465-5522
Toll Free: 1-800-232-1992
Fax: (780) 465-8987
www.peerless.ca

Peerless Limited - Grande Prairie, AB.

9610 - 108 Street
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Phone: (780) 532-1403
Fax: (780) 538-2402
www.peerless.ca

Peerless Limited - Prince George, B.C.

9453 Rock Island Road
Prince George, British Columbia V2N 5T4
Phone: (250) 561-2262
Fax: (250) 563-3829
www.peerless.ca

The Real McCoy Service Centres

Westend - Edmonton

17303 - 114 Avenue
Edmonton, Alberta T5S 2R9
Phone: (780) 453-8706
Toll Free: 1-800-252-9373
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